



Mark G. Thessin
Vice President - Rates & Regulatory Affairs

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OFFICE OF THE
EXECUTIVE SECRETARY

June 1, 1999

Mr. David Waddell, Executive Director
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

**RE: Petition by United Cities Gas Company
For Waiver of Rule 1220-4-7-.05**

Dear Mr. Waddell,

Enclosed for filing please find the original and 2 copies of United Cities Gas Company's Petition for Wavier of Rule 1220-4-7-.05. The TRA's review and approval of this petition at its earliest convenience is respectfully requested.

If you should have any questions, please feel free to contact me at 615.771.8330.

Sincerely,

A handwritten signature in black ink that reads "Mark G. Thessin".

Mark G. Thessin

Cc: Consumer Advocate Division

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**BEFORE THE TENNESSEE REGULATORY AUTHORITY
AT NASHVILLE, TENNESSEE**

OFFICE OF THE
EXECUTIVE SECRETARY

In Re: Petition of United Cities Gas

Company For Waiver of Rule 1220-4-7-.05

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Docket No. _____

PETITION OF UNITED CITIES GAS COMPANY

COMES NOW United Cities Gas Company, a division of Atmos Energy Corporation (United Cities) and files this petition requesting that the Tennessee Regulatory Authority (TRA) waive Rule 1220-4-7-.05 which requires a Company to undergo a prudent audit of its gas purchases. In support of its petition, United Cities states as follows:

1. On May 12, 1995, the Tennessee Public Service Commission approved an incentive or performance based ratemaking (PBR) program for United Cities' gas purchases. The program was approved for a two year experimental period beginning April 1, 1995 and ending March 31, 1997.
2. Prior to the end of the experimental term, United Cities requested that the program be extended and made permanent.

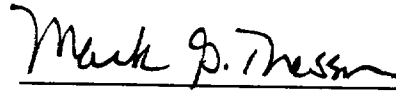
3. On February 16, 1999 the TRA issued a decision approving a permanent program with certain modifications. The permanent program became effective April 1, 1999.
4. It is for the period April 1, 1997 to March 31, 1999 that the waiver in this petition is being requested since a PBR program was not in place during these two years.
5. The Company would propose an alternative to the hiring of a consultant under Rule 1220-4-7-.05 which will be more timely and less costly. As the Authority is aware, the hiring of a consultant not only is costly in dollars, but also consumes a significant amount of time of Company employees, which can otherwise used to procure the least cost gas supply for our customers. Although it is not directly on the same point, the Company has already spent a significant amount of money in attempting to renew the PBR program. The avoidance of additional expenditures in this area will benefit both the customers and the Company.
6. United Cities would propose as an alternative that the purchases made during the April 1, 1997 to March 31, 1999 period be compared to the indices used in the incentive program - NYMEX, *Inside FERC* and *NGI*. To the extent that United Cities purchased above the approved reasonableness zone - 97.7% to 102% it would have to justify its purchases as reasonable and prudent. Anything below the upper end

of the zone (102%) would be presumed to be both reasonable and prudent.

7. United Cities submits that such an alternative complies with the intent of Rule 1220-4-7.05 for several reasons. First, the contract that covered most of the gas purchases during this time frame was entered into during the second year of the experimental program. Under the PBR program this contract was shown to be of a great benefit to the Company's customers. Second, this same contract has recently been found by the TRA to meet the affiliate guideline requirements, and will continue to be tested against the market indices in the permanent program to determine its ongoing reasonableness. Third, the purchases made during this period were made by the Company under the assumption that there would be an incentive program in place. As the Authority will recall, the Company requested that the program be made permanent on April 1, 1997. Last, as has been done in the past before the incentive program was in place, the prudence auditor in all likelihood will compare the gas purchases to various indices to test their reasonableness.
8. United Cities would respectfully submit that this alternative proposal would be less costly and time consuming than hiring a consultant yet achieve the same result for the customers - ensuring that gas costs are reasonable and prudent.

WHEREFORE, for the foregoing reasons, United Cities respectfully requests that the TRA grant the Company's request for a waiver of Rule 1220-4-7-.05.

Respectfully submitted,

A handwritten signature in black ink, reading "Mark G. Thessin". The signature is written in a cursive style with a horizontal line underneath.

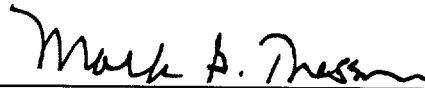
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e-mail: Mark.Thessin@unitedcitiesgas.com

CERTIFICATE OF SERVICE

I hereby certify that the above and foregoing was mailed postage prepaid, to the following persons this 1st day of June, 1999, addressed to:

Mr. L. Vincent Williams
Mr. Vance Broemel
Consumer Advocate Division
426 5th Avenue North, 2nd Floor
Nashville, TN 37243

Mr. Richard Collier
Tennessee Regulatory Authority
Legal Division
460 James Robertson Parkway
Nashville, TN 37243



Mark G. Thessin